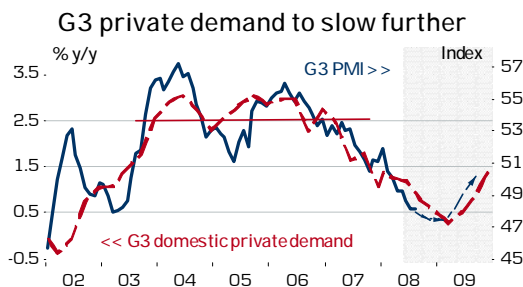


# Weekly Focus

26 September – 3 October 2008



## Global forecasts

### GDP & CPI forecasts

	USA	Euroland	Japan	China
--- GDP ---				
2008	1.9 (1.5)	1.3 (1.4)	1.0 (1.5)	10.0 (10.4)
2009	1.5 (1.5)	0.7 (1.2)	1.3 (1.6)	9.5 (9.7)
--- CPI ---				
2008	4.4 (3.9)	3.6 (3.8)	1.6 (1.7)	6.3 (7.7)
2009	2.6 (2.2)	2.6 (2.5)	0.8 (0.8)	3.6 (5.0)

## New global forecasts

We published our new forecasts for the global economy in the past week. The economy continues to languish following the two major shocks to growth that have hit in the past year – the financial crisis and the run-up in commodity prices. In the coming quarters the developed economies will totter on the brink of recession, with very weak growth in the US, Euroland, the UK and Japan.

In the US we expect to see another leg down in growth in H2 08 as the boost from the tax rebates reverses and housing continues to be a drag while exports will provide less support as global growth falters. We expect a gradual but fragile recovery to kick off in H1 09 as lower inflation underpins consumption growth and the drag from housing gradually fades, spreading to the rest of the developed economies later in the year. We believe that the Federal Reserve will stay on hold for a long time, as growth will stay weak and inflation and inflation expectations are coming down.

We expect further weakness in the Euro area for the rest of the year and into H1 09. Sluggish consumption growth, rapidly slowing exports and depressed housing markets will be the focal point of the slowdown. We expect a slow recovery to materialise in H2 09 on the back of higher US growth and a rise in real income growth as inflation comes down. The ECB is now expected to deliver two rate cuts of 25bp in H1 09, taking the refi rate to 3.75%.

The slowdown has spread to most emerging markets, with GDP growth and industrial activity weakening in Asia, Central & Eastern Europe and Latin America. The Middle East is now the only major pocket of strength. The spike in inflation on the back of higher crude oil and commodity prices has hit EM Asia especially hard and forced reluctant Asian central banks to tighten monetary policy.

See [Global Scenarios - September 2008](#)

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# Denmark

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## Household borrowing continues to climb

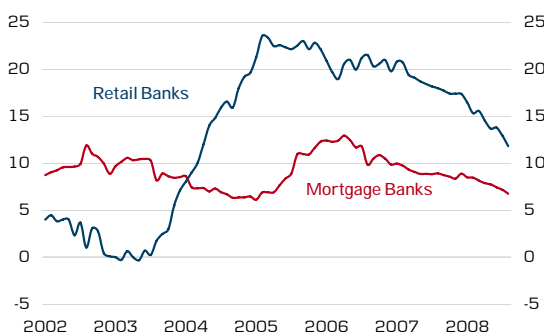
In the midst of the worst banking crisis in living memory, it can be worth taking time out to look at how the crisis is affecting ordinary people. One of the things to look for is whether banks are cutting back on lending. The Danish central bank has just published data for activity in the financial sector in August, and these show that one year into the financial crisis households are continuing to increase their borrowings from banks and mortgage lenders. Growth is slower than before, but the figures show that households are still able to borrow despite falling house prices and struggling banks.

Household borrowing from banks and other credit institutions totalled DKK 2,180.5bn in August, which is DKK 4.5bn more than in July and 8.1% up on August last year. The rate of growth has more or less halved since peaking back in 2006 when rapidly rising home equity levels resulted in very good credit conditions but is still healthy.

This is not surprising, as the financial position of households remains sound, thanks not least to unemployment continuing to fall. The drop in property prices has reduced home equity levels only marginally for the average homeowner, and by far the majority are still in a position to borrow more than they choose to.

However, we have to expect growth in household borrowing decline further as the economic downturn becomes more visible, not least in the form of higher unemployment. This will also put a damper on household consumption going forward. However, the figures do not suggest a sharp slowdown, and this ties in well with our forecast for the household sector.

Growth in lending year-to-year



### Key events of the week ahead

- The coming week is littered with interesting economic data. Tuesday offers revised national accounts figures for Q2 and business confidence indicators.
- Wednesday brings data for retail sales. We expect a healthy increase after the decrease in July.
- Thursday sees figures for unemployment in August. We expect it to begin to climb.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 30	9:30	DKK GDP, final	q/qly/y 2nd quarter	0.9% 1.5%		-0.6% -0.7%
Wed 01	9:30	DKK Retail sales, volume	m/mly/y Aug	2.7% -2.1%		-2.5% -4.1%
Wed 01	11:00	DKK PMI Survey	Index Sep			48.4
Thu 02	9:30	DKK Unemployment, s.a.	% Aug			1.6
Thu 02	16:00	DKK Change in currency reserves	DKK bn Sep			0.9

# Sweden

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## When will the economy improve?

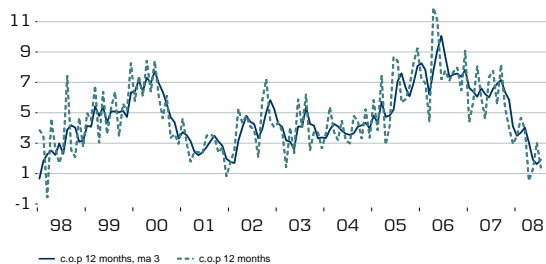
When will economic developments take a turn for the better? How long will it take for the credit crisis to blow over? We would like to know the answers to these questions, but it is of course impossible, at least in terms of specific time horizons. However, it is possible to at least lay out some of the preconditions that need to be in place to allow some optimism about the prospects for the economy. Below is an outline of these preconditions.

The primary driving force in the modern economy is corporate earnings. Rising earnings growth means increasing economic growth (GDP) and vice versa. When times are good for business, demand for capital and labour rises and consumption increases. Hence, for GDP growth to speed up, earnings prospects should first improve.

For company earnings to increase, three things would have to be in place, in our view: 1) Lower/stable commodity prices, 2) Lower interest rates and 3) Lower wage growth.

One could argue that the first point has been partially fulfilled, as commodity prices have retreated a bit from their peaks. However, the other two conditions still have to be fulfilled. Within 3-6 months, the Riksbank ought to have embarked on the easing of monetary policy that we forecast and unemployment will probably be increasing. Somewhere in this process, corporate costs will be cut sufficiently to allow an improvement in earnings prospects – the light at the end of the tunnel. It will take a little longer for consumers to see the same light.

Slow retail sales



### Key events of the week ahead

- August retail sales figures expected to remain weak, showing a modest 2.0% yoy increase. September PMI should also remain weak, as sentiment was most likely affected by the financial turmoil.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 30	9:30	SEK Retail sales	m/mly/y	Aug		-0.5% 1.3%
Wed 01	8:30	SEK PMI	Index	Sep		46.4
Thu 02	14:00	SEK Riksbank speech by First Deputy Governor Irma Rosenberg				

# Norway

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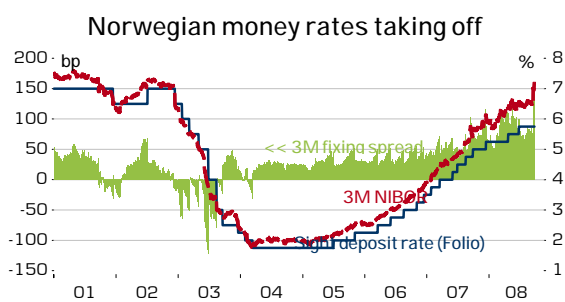
## Rate cuts coming in Norway too but not until March

As the financial crisis rages on, one of the markets to be hit hard is the Norwegian money market, where rates have shot up. The three-month NIBOR is currently trading above 7.30%, more than 150bp above Norges Bank's policy rate. With Norwegian banks in some cases having to pay as much as 1-2pp more to secure funding for the coming years, we should anticipate further increases in bank lending rates in the coming months more or less irrespective of what Norges Bank does with its policy rate.

The Norwegian economy had already shifted sharply down in gear in H1, but the current cocktail of higher interest rates, much tighter credit conditions and weaker global growth cannot fail to have an impact on the real economy in Norway too. We will be releasing our latest quarterly forecast for the Scandinavian economies at the beginning of the coming week, and we can already reveal that we are now expecting at least two rate cuts from Norges Bank in the next 12 months.

The question is how quickly Norges Bank will start lowering its policy rate. The message from the bank at the rate-setting meeting during the week was that it is on hold for the time being. There is no longer a risk of one last hike, but nor are cuts imminent. And there is good reason why Norges Bank would find it very hard to lower its policy rate this year. Underlying inflation is close to 3.5%, which is way above the 2.5% target. Unlike in other countries, petrol prices are not the main culprit. This is wage-driven inflation, and with unemployment at just 2.4%, the threat is ever-present. We are also convinced that the NOK would weaken markedly were Norges Bank to go out on a limb in the current risk environment and cut before the ECB and a weaker NOK could presage a leap in imported inflation. We believe that Norges Bank is of the same view, which means that, in principle, it is now waiting for the ECB to make a move.

We expect Norges Bank to cut the policy rate by 25bp at in March and June next year, taking it down to 5.25%. Further cuts could be on the cards, especially if banks raise their lending rates further or if the global slowdown hits the Norwegian economy harder than we expect. On the other hand, there is a risk of underlying inflation climbing further than we assume, which would make it difficult for Norges Bank to act as we forecast.



### Key events of the week ahead

- Retail sales have fallen for two months in a row, paving the way for an increase of 0.5% m/m in August.
- Credit growth is expected to slow from 13.1% to 12.8%.
- Registered unemployment is expected to fall from 1.8% in August to 1.7%. In seasonally adjusted terms, though, this is equivalent to an increase in unemployment.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Tue 30	-	NOK Norges Bank purchase of currency	M. a day	Oct	1100	1540
Tue 30	10:00	NOK Retail sales, sa.	m/mly/y	Aug	0.5%	-0.6% 1.5%
Tue 30	10:00	NOK Credit indicator (C2)	y/y	Aug	12.8%	13.1%
Thu 02	10:00	NOK Unemployment	%	Sep	1.7	1.8
Fri 03	9:00	NOK PMI	Index	Sep	48	48.4

# Euroland

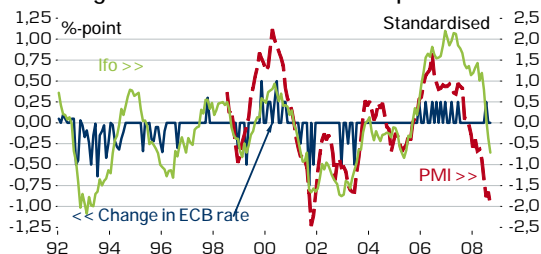
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## ECB meeting in the light of weak growth indicators

It has been an eventful week, with many of the pieces falling into place ahead of the coming week's rate-setting meeting at the ECB. The dramatic slide in the Ifo index in recent months continued in September. The index has been falling at a rate seen only ahead of the sharp recessions of 1973, 1982 and 1992, supporting our impression of a German economy in recession. The PMI for Euroland as a whole also fell further and is now signalling a mild recession in Q3. At the same time, the detailed PMI data show that employment growth is on the way down, as expected. It will therefore be more difficult to get the wheels rolling again, and there is the prospect of only weak growth over the next 12-18 months. We expect the ECB will have to revise down its growth projections when the next update is released in connection with its meeting in December. Thoughts along these lines have already been voiced by members of the governing council. For instance, new member Ewald Nowotny has commented: The last [growth projections for 2009] already look in need of a downward revision, and I'm not sure that this is the last time there will be a downward revision. The ECB's tone at the press conference will likely be neutral, though we see a risk of a more concerned tone than previously on growth. We expect Jean-Claude Trichet to stress that the downward risks to growth in Euroland have become ever clearer, but that inflation is still very high and above the ECB's target of keeping it below 2% in the medium term (through to the end of 2009).

However, we do not think that the ECB is ready to lower its key rates at the coming week's meeting. We consider March and June 2009 to be the most likely dates for rate cuts, in part because inflation is still too high. That said, we expect Tuesday's flash estimate for Euroland HICP inflation in September to show a decrease to 3.7% y/y from 3.8% in August. This is slightly higher than the consensus forecast of 3.6% y/y.

Normally the ECB would cut rates now, but high inflation makes that impossible



### Key events of the week ahead

- Tuesday brings flash HICP inflation for Euroland in September. We expect headline inflation of 3.7% y/y. Consensus is 3.6% y/y.
- Thursday sees a rate-setting meeting at the ECB.
- Wednesday final Euroland manufacturing PMI is released. Friday brings on final service PMI. As consensus we expect flash estimates to be confirmed at 45.3 and 48.2 respectively.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 29	9:00	ESP HICP, preliminary	m/m/y/y	Aug	4.6%	4.9%
Mon 29	11:00	EUR Consumer confidence	Index	Sep	-20	-19
Mon 29	11:00	EUR Industrial confidence	Index	Sep	-12	-10
Mon 29	11:00	EUR Economic Confidence	Index	Sep	87.2	88.8
Tue 30 - 05	-	DEM Retail sales,	m/m/y/y	Aug	0.5% -2.6%	-1.5% 0.0%
Tue 30	8:00	DEM ILO Unemployment rate	%	Aug	7.3	7.3
Tue 30	8:45	FRF PPI	m/m/y/y	Aug	0.2% 6.9%	0.7% 7.3%
Tue 30	9:55	DEM Unemployment rate, sa.	%	Sep	7.6	7.6
Tue 30	11:00	ITL CPI, preliminary	m/m/y/y	Sep	0.0% 4.0%	0.1% 4.1%
Tue 30	11:00	ITL HICP, preliminary	m/m/y/y	Sep	0.7% 4.2%	0.0% 4.2%
Tue 30	11:00	EUR CPI Flash estimate	y/y	Sep	3.7%	3.6%
Wed 01	9:45	ITL PMI Manufacturing	Index	Sep	46.0	47.1
Wed 01	9:50	FRF PMI Manufacturing, final	Index	Sep	43.6	43.6
Wed 01	9:55	DEM PMI Manufacturing, final	Index	Sep	48.1	48.1
Wed 01	10:00	EUR PMI Manufacturing, final	Index	Sep	45.3	45.3
Wed 01	11:00	EUR Unemployment	%	Aug	7.4	7.3
Thu 02	11:00	EUR PPI	m/m/y/y	Aug	-0.5% 8.5%	1.1% 9.0%
Thu 02	13:45	EUR ECB Announces Interest Rates	%		4.25	4.25
Fri 03	9:45	ITL PMI Services	Index	Sep	48.1	48.5
Fri 03	9:50	FRF PMI Services, final	Index	Sep	50.4	50.4
Fri 03	9:55	DEM PMI Services, final	Index	Sep	49.3	49.3
Fri 03	10:00	EUR PMI, final	Index	Sep	47.0	47.0
Fri 03	10:00	EUR PMI service, final	Index	Sep	48.2	48.2

# Switzerland

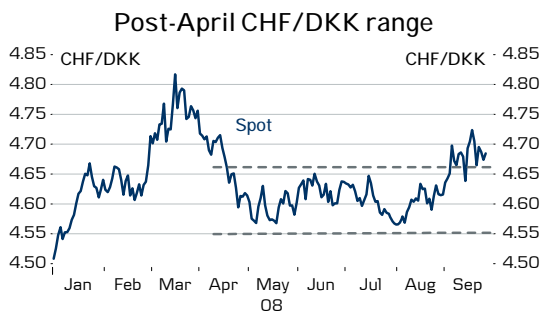
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## CHF/DKK range moving higher

Economic data have been thin on the ground in the past week in Switzerland. The only release of note was Friday's KOF leading indicator for September, which posted yet another fall. The KOF indicator fell to 0.62 from an upwardly revised 0.73 in August, and thus still points to below trend growth in 2009.

Despite the dearth of data, there have, however, been major movements in the FX and fixed income markets on the back of news relating to the USD 700bn bailout proposed by US Treasury Secretary Paulson. The Swiss franc has weakened against the Danish krone as a result of a general improvement in financial market sentiment and rising equity prices. CHF/DKK has fallen to 4.69 after trading as high as 4.73 in the days prior to news of the rescue package. However, despite the recent weakening of the Swiss franc, CHF/DKK has finally broken out of the 4.55-4.66 range that has held since April. This sits well with our forecast, and we expect that the Swiss franc will strengthen further and the CHF/DKK trading range gradually move higher.

The week ahead will be more bountiful data-wise, with the September quarterly bulletin from the Swiss National Bank (SNB) on Thursday and the release of September consumer prices on Friday topping the list. While we have already gained some insight into the SNB's updated inflation and growth forecast in connection with its Q3 rate meeting on 18 September, the quarterly bulletin will provide a more detailed picture of the SNB's view on the Swiss economy. It will be interesting, not least, to learn what assumptions lay behind the SNB decision to maintain its growth forecast but to revise up its short-term inflation forecast. Although the SNB now expects that inflation will retreat a little more slowly than previously assumed, its forecast still suggests that inflation will return to target in 2009. In line with this we expect that consumer prices will fall yet again in September: the consensus forecast is for a fall to 2.7% from 2.9%.



### Key events of the week ahead

- Tuesday at 10:10 - August consumption indicator.
- Thursday at 11:00 - SNB quarterly bulletin.
- Friday at 07:45 - September CPI. We expect yet another fall in consumer prices.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 30	10:00	CHF Consumption indicator	Index	Aug		1.848
Wed 01	9:30	CHF SVME PMI		Sep	51.0	52.5
Thu 02	11:00	CHF SNB publishes September's Quarterly Bulletin		3rd quarter		
Fri 03	7:45	CHF CPI	m/mly/y	Sep	-0.1% 2.7%	-0.3% 2.9%

# USA

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## Fierce political debate of Paulson's bailout plan

US Treasury Secretary Henry Paulson's plan to set up a federal fund to buy up problem assets from various financial institutions has come under intense fire from the country's politicians. The plan needs to be approved by Congress before it can be rolled out, and to begin with there was broad agreement that the plan would be approved as quickly as possible. As the week has progressed, though, a fierce political debate about the details of the plan has erupted, fuelling market fears that the plan will not be approved in time. At Wednesday's Congress hearing, Federal Reserve chairman Ben Bernanke expressed deep concern about the consequences for the economy if Congress did not act quickly to address the grave threats to financial stability that we currently face. For now there seems to be agreement on the main thrust of the plan, which would allow the Treasury to issue securities worth up to USD 700bn to fund the purchase of problem assets from financial institutions. There is also talk of awarding Congress a clear supervisory role, imposing a ceiling on executive pay at institutions receiving substantial injections of government money, and the possibility of the government being issued warrants by the institutions receiving aid.

If Paulson's plan is adopted in one form or another in the next few days, the market will probably pay slightly more attention to incoming economic data than has been the case this past week. The week actually saw one ray of sunshine penetrate the gloom, in the form of existing home sales, which showed a further stabilisation in sales and a decrease in the number of unsold homes in August. The coming week offers a wide range of data, the most important being the ISM for the manufacturing sector on Wednesday and the employment report on Friday. In light of the past week's weak durable goods orders and data from a variety of regional industrial confidence surveys, we expect a decrease in the ISM to 48 in September. The US labour market remains weak, and we forecast a decline in non-farm payrolls of 90,000.

### Signs of stabilisation in the housing market



### Key events of the week ahead

- Wednesday: We expect the ISM for the manufacturing sector to fall to 48.
- Friday: We expect non-farm payrolls to fall by 90,000 in September.
- Friday: We expect the ISM for the service sector to drop to 50.3.

Date	Time	Event	Period	DanskeBank	Consensus	Previous	
Mon 29	14:30	USD Personal income	m/m	Aug	0.4%	0.2%	-0.7%
Mon 29	14:30	USD Personal spending	m/m	Aug	0.2%	0.2%	0.2%
Mon 29	14:30	USD Private consumption expenditure	m/mly/y	Aug	0.2% 2.5%	0.2% 2.4%	0.3% 2.4%
Mon 29	14:30	USD PCE deflator	y/y	Aug	4.5%	4.5%	4.5%
Tue 30	2:45	USD Fed's Hoenig (neutral, non-voter) speaks on economy, policy					
Tue 30	16:00	USD Chicago PMI	Index	Sep	54.7	54.0	57.9
Tue 30	16:00	USD Consumer confidence	Index	Sep	57.0	55.0	56.9
Tue 30	19:00	USD Atlanta Fed's Lockhart (neutral, non-voter) speaks on economy in New Orleans					
Wed 01	-	USD Total Vehicle Sales	m	Sep		13.6	13.7
Wed 01	13:00	USD MBA Mortgage Applications, Sep. 26					-10.6%
Wed 01	16:00	USD Construction spending	m/m	Aug		-0.5%	-0.6%
Wed 01	16:00	USD ISM Manufacturing	Index	Sep	48	50.0	49.9
Wed 01	16:00	USD ISM prices paid	Index	Sep		73.5	77.0
Thu 02	14:30	USD Initial jobless claims, Sep. 27	1000				493
Thu 02	16:00	USD Factory Orders	m/m	Aug		-1.8%	1.3%
Fri 03	2:00	USD St. Louis Fed's Bullard (neutral, non-voter) speaks					
Fri 03	14:15	USD Treasury's Ryan speaks at SIFMA event					
Fri 03	14:30	USD Change in nonfarm payroll	1000	Sep	-90	-95	-84
Fri 03	14:30	USD Unemployment rate	%	Sep	6.1	6.1	6.1
Fri 03	14:30	USD Average hourly earnings, non-farm	m/mly/y	Sep		0.3% 3.6%	0.4% 3.6%
Fri 03	16:00	USD ISM (NAPM) non-manufacturing	Index	Sep	50.3	50.0	50.6

# Asia

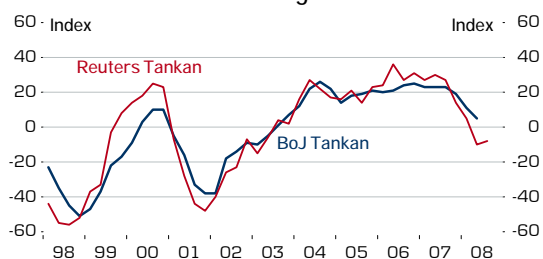
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## Aso new Japanese PM as expected

As forecast, Taro Aso was confirmed as Japan's new prime minister during the week (see [Flash Comment - Japan: Aso new LDP chief and likely new prime minister](#)). During the internal election campaign within the ruling LDP party, Aso was a keen advocate of further fiscal easing, and so his appointment has increased the chances of further cuts in income taxes in the autumn, although it is not yet clear how much support he has for this policy. There is also speculation that Aso will call elections to the lower house relatively soon. However, this will not relieve the political deadlock in Japan, where the opposition's majority in the upper house is making life difficult for the current LDP-led coalition. The LDP might well win the vote, but it is unlikely to retain its current two-thirds-plus majority. In other words, it will become even harder to govern, as holding more than two-thirds of the seats in the lower house has so far enabled the government to trump the opposition's majority in the upper house. Japan is therefore braced for further political deadlock.

In the coming week, the main focus will be on the Bank of Japan's Tankan business confidence survey for Q3. We will undoubtedly see a further decrease in confidence on the back of the recent deterioration in the Japanese economy. However, things are not all that bad. The Reuters Tankan, which tends to be a fairly good pointer for the BoJ's Tankan, did not show any further deterioration in the assessment of the current situation, and a number of other indicators, including the Nomura/JMMA PMI, have also suggested some stabilisation. The overall picture at the moment is that the Japanese economy is weak, but far from as weak as it was during the previous recession in 2001/02.

Tankan indices for large manufacturers



### Key events of the week ahead

- The coming week is a busy one for economic data in Japan. The big highlight is the BoJ Tankan on Wednesday. Tuesday brings unemployment and industrial production figures for August and PMI data for the manufacturing sector in September.
- In China, the two PMI indicators for September are due out: the NBS PMI on Wednesday and the CLSA PMI on Thursday.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 29	1:50	JPY Retail trade	m/mly/y		-0.2% 0.2%	0.0% 1.9%
Tue 30	1:15	JPY Nomura/JMMA Manufacturing PMI	Index			46.9
Tue 30	1:30	JPY Job-to-applicant ratio			0.88	0.89
Tue 30	1:30	JPY Household spending	y/y		-1.3%	-0.5%
Tue 30	1:30	JPY Jobless rate	%		4.1	4.0
Tue 30	1:50	JPY Industrial production, preliminary	m/mly/y		-2.4% -6.3%	1.3% 2.4%
Tue 30	6:00	JPY Vehicle production	y/y			24.1%
Tue 30	7:00	JPY Housing starts	y/y		49.8%	19.0%
Tue 30	7:00	JPY Construction orders	y/y			42.3%
Tue 30	7:00	JPY Small Business Confidence				41.4
Wed 01	1:50	JPY Tankan Lge Manufacturer's Index	3rd quarter	-2	-2	5
Wed 01	1:50	JPY Tankan Lge Mfg Outlook	3rd quarter	-4	-3	4
Wed 01	1:50	JPY Tankan Non-Manufacturing	3rd quarter	3	5	10
Wed 01	1:50	JPY Tankan Non-Mfg Outlook	3rd quarter	0	2	8
Wed 01	3:00	CNY Manufacturing PMI	Index			48.4
Wed 01	3:30	JPY Labour Cash Earnings	y/y		0.0%	0.3%
Thu 02	4:30	CNY CLSA Manufacturing PMI	Index			49.2

# Foreign Exchange

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## Crisis bites

Although the week began with a degree of optimism following the unveiling of the plan to resolve the problems in the US financial sector, bad news still came to dominate the week.

On the economic front, the news flow was still predominantly negative. In Germany, the expectations component of the important Ifo index sank to its lowest level since 1993. Business confidence in France and Italy also fell to their lowest levels for years. The PMI for Euroland as a whole dropped to 45.3, which points to a significant economic slowdown bordering on recession. In the US, we saw lower activity in the housing market, dwindling orders and an increase in the weekly unemployment figures to their highest levels in the present cycle. New Zealand is now officially in recession after GDP fell again in Q2. In a nutshell, there was again more bad news than good news, and the trend in the global economy is still negative. We do not expect any improvement this side of Christmas.

When it comes to the global financial crisis, there was both good and bad news, depending on how you look at it. It is a good thing in itself that the US is now attempting to shift from ad hoc firefighting to a more systemic approach. At the time of writing, the proposed bailout plan has yet to be approved, however. Less positive is that the only remaining major investor in town seems to be the public sector. In the money market, conditions are outright bad. Despite coordinated intervention by several of the world's major central banks and an explicit deposit guarantee for US money market funds, the pressure on money markets worldwide is greater than ever. In terms of the real economy, this equates to monetary policy tightening, which is definitely not what the doctor ordered. In financial terms, all else being equal, it is increasing the opportunity cost of investments and exacerbating the risk of financial asset fire-sales.

Our view of the FX market has not changed significantly over the past couple of weeks. Generally speaking we favour safe currencies like the CHF and JPY. We also believe that high-yielding, overvalued currencies backed by large current account deficits and ailing economies, such as the NZD and AUD, and to some extent also the GBP, will continue to weaken. The ISK fell to a historical low this week, and both real economic and financial factors (not least a current account deficit running at +30% of GDP) suggest that it is too early to hope for a turnaround here. In South Africa, president Thabo Mbeki resigned, throwing his country into its most serious political crisis for years. At the same time, retail sales and inflation figures underlined a worrying stagflationary economic situation. We expect the ZAR to weaken further in the coming months. Closer to home, the SEK fell to its lowest since 2001 during the week, and the combination of a domestic economic slowdown and global financial tension points towards further weakness. And then there is the USD. The recent massive volatility has been due, in particular, to the unwinding of financial positions. Fundamentally, though, we still believe that the USD will strengthen against the EUR over the next six months. For a more detailed look at our take on the FX markets, see our [FX forecast update: Extending the tunnel](#).

# Fixed income

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## Deal or no deal?

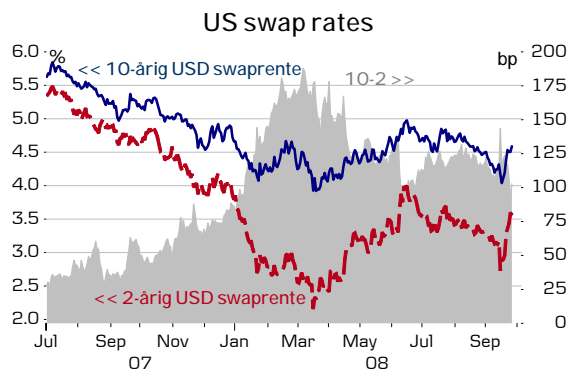
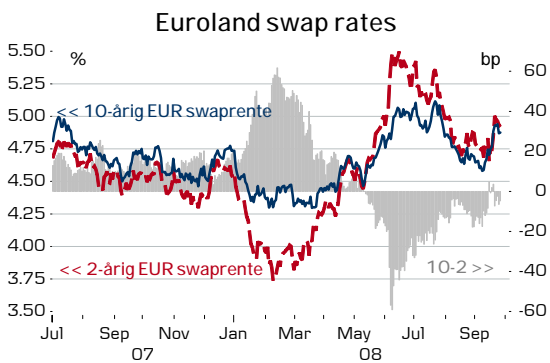
At the time of writing it is still unclear whether the US Congress will be able to reach agreement with the White House on the proposed USD 700bn bailout package. It is still likely that a compromise will be reached today, Friday, but the negotiations could continue into the weekend or even drag out until the beginning of next week. Uncertainty about the outcome is completely dominating financial markets right now.

Yields will fluctuate on news from the negotiations until it is clear whether, and in what form, the bailout package will be adopted. We still expect agreement on the package to be reached, and for the key elements of the package to be retained, not least because there is so much at stake.

If it does become clear that the package will be passed, this will prompt a major sigh of relief from the financial markets in the form of higher prices for risky assets and higher yields. In the longer term, the key thing is to get the money markets working again, and the first step is undoubtedly to get the bailout package passed.

So what happens if the politicians cannot reach agreement? We hardly dare imagine. But a look back to the Thursday before news of the package emerged gives us an indication of what we could expect: a massive increase in risk aversion in the financial markets, with plummeting Treasury yields and growing swap spreads.

The financial crisis alone will not be enough to get the Fed to cut interest rates. Further tangible weakness in the economy will be needed for this to happen. However, the latest comments from Fed chairman Ben Bernanke are less dismissive of further rate cuts than before. We will get a good insight into the state of the US economy in the coming week with the release of a variety of important economic data. The ISM and employment reports will attract particular attention financial crisis permitting.



# Equities

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## From financial crisis to economic crisis but Wall Street is ready and waiting!

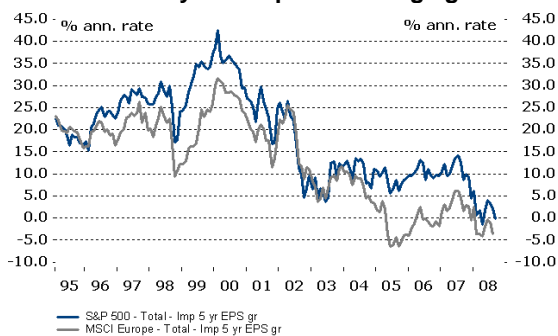
Congress will almost certainly hammer out an agreement on Treasury Secretary Henry Paulson's rescue plan in the next few days and give the green light to the biggest financial aid package since 1989. In our view, the package rules out a scenario where the US economy is hit by a systemic breakdown as the heart of a well-functioning economy credit intermediation stops beating and consigns the US economy to years in previously uncharted negative territory.

Like global equity investors, we have been shocked by how serious the financial crisis has become in just a couple of weeks, with the collapse of financial giants Lehman Brothers, AIG, Fannie Mae and Freddie Mac. And because the crisis has proved much more serious than most people anticipated, it is perhaps difficult to get too excited about a possible solution. Nevertheless, the bailout plan leads us to expect that US financial institutions will begin to function more normally over the next few months, and that lending to healthy businesses and households will get back on track. This, in turn, leads us to expect that the equity market will begin to focus on other things. And one of the things that the equity market will undoubtedly begin to speculate about is how long and deep the current economic crisis in the Western economies will last.

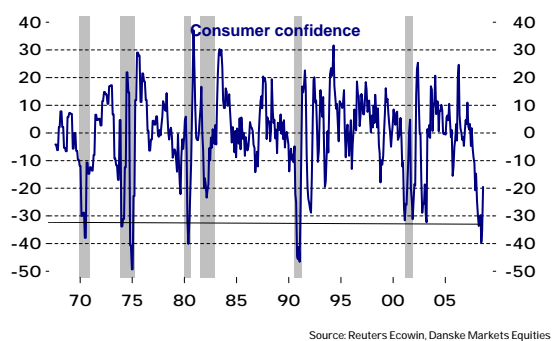
Here too the situation in the USA is key. Data for the housing market and the job market during the week spoke their own very clear language the language of recession and we do indeed expect the US economy to come close to recession in H2 this year. But can there really be anyone anywhere in the world who did not see an economic crisis in the USA coming? Based on confidence data, the answer is a resounding no. The global equity investor has been getting warnings for a long time now. The reason for this is that the financial crisis evolved independently, without the help of a recession. The financial crisis therefore triggered an expectation in the equity market that a pronounced cooling of the global economy would result.

In other words, investors have already reacted as though there were a recession in the US economy and weak growth elsewhere in the global economy. The negative earnings growth discounted for the coming years, the sharp reaction in cyclical stocks relative to defensive stocks, the high price of freedom from risk (short-term government paper) and, not least, historically low consumer and investor confidence all go to show in their own way that the equity market is ready and waiting for the slowdown in economic growth we expect to see in H2 this year. We expect it to take a long time for the equity market to make up the ground lost over the last 15-16 months, but we still reckon that both US and Nordic equities will start recovering in the coming months. The equity market is always one step ahead of the economy and we anticipate a mild upturn in the US in 2009.

**Historically low implicit earnings growth**



**Consumers braced for slowdown**



# Macroeconomic forecast

## Macro forecast, Scandinavia

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Stock build. <sup>2</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Unem-ptym. <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Denmark	2007	1,7	2,3	1,6	5,9	-0,3	1,9	3,8	1,7	2,8	4,8	27	1,2
	2008	1,0	1,7	1,6	0,5	-0,1	3,4	4,1	3,4	1,8	4,5	22	1,0
	2009	0,8	0,8	1,7	0,1	0,0	3,1	3,4	2,6	2,1	3,3	18	0,6
Sweden	2007	2,9	3,1	1,3	8,2	0,7	6,2	9,9	2,2	6,2	3,5	42	8,4
	2008	1,0	1,2	-1,2	1,2	0,1	2,9	2,6	3,7	6,1	2,4	37	7,7
	2009	0,9	0,8	1,6	-2,9	-0,3	0,6	-1,4	2,1	8,0	2,3	35	8,6
Norway	2007	3,7	6,5	3,6	9,5	-0,3	2,7	8,8	0,7	2,5	8,0	26	18,1
	2008	3,1	2,8	3,2	3,2	1,1	3,1	5,9	3,8	2,6	12,0	26	23,5
	2009	2,7	2,8	2,8	4,6	0,0	3,5	4,8	2,7	2,7	13,9	26	22,4

## Macro forecast, Euroland

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Stock build. <sup>2</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Unem-ptym. <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Euroland	2007	2,6	1,6	2,3	4,3	-0,1	6,0	5,2	2,8	7,4	-0,8	67	-0,8
	2008	1,3	0,4	1,7	1,4	0,1	2,9	2,2	3,6	7,4	-1,1	65	-0,5
	2009	0,7	0,6	2,2	-1,2	0,0	1,5	1,1	2,6	7,8	-1,5	65	-0,7
Germany	2007	2,7	-0,2	1,9	5,6	-0,1	8,5	5,5	2,9	8,3	-0,5	65	5,8
	2008	1,3	0,4	0,6	2,6	0,1	3,2	2,5	3,3	7,8	-0,5	64	6,0
	2009	0,5	0,5	0,7	0,1	-0,1	2,0	1,5	2,4	8,1	-0,2	64	6,3
France	2007	1,9	1,9	2,0	4,1	-0,2	3,5	6,6	2,0	8,0	-2,3	63	-2,3
	2008	0,9	1,1	1,4	0,5	0,0	1,5	1,8	3,5	7,8	-2,7	62	-2,3
	2009	0,7	1,2	1,5	0,2	0,1	2,0	2,0	3,1	8,0	-3,0	62	-2,3
Italy	2007	1,8	1,7	0,8	2,8	0,0	2,5	1,8	2,6	5,9	-2,6	105	-1,7
	2008	0,0	-0,6	1,2	-0,3	0,0	0,3	-0,8	3,7	6,2	-2,5	103	-2,4
	2009	0,4	0,3	1,2	-1,0	-0,1	0,6	-0,2	2,2	6,5	-2,7	102	-2,5
Spain	2007	3,8	3,2	5,1	6,4	-0,4	5,5	6,8	3,4	8,0	1,5	37	-9,0
	2008	1,3	1,2	4,0	-1,0	0,0	2,5	1,7	4,5	9,0	0,7	35	-10,0
	2009	0,4	1,2	4,0	-3,0	0,0	2,5	1,5	2,3	9,5	-0,3	35	-8,0
Holland	2007	3,0	1,8	3,2	4,8	-0,1	6,0	5,5	2,4	3,3	0,0	60	7,0
	2008	1,7	0,5	1,2	1,0	0,1	2,5	2,0	2,3	3,0	0,0	59	6,5
	2009	1,2	0,6	1,2	1,5	-0,1	2,5	2,0	1,7	3,2	0,0	59	6,5
Finland	2007	4,5	3,2	1,3	8,3	0,1	8,2	6,6	2,5	6,9	5,3	35	5,3
	2008	2,6	2,4	1,6	4,0	0,0	2,0	1,5	3,9	6,3	4,7	33	4,0
	2009	1,8	2,8	1,8	0,0	0,0	2,5	2,0	2,5	6,3	3,9	31	3,0

## Macro forecast, Global

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Stock build. <sup>2</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Unem-ptym. <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
USA	2007	2,0	2,8	2,1	-1,8	-0,4	8,4	2,2	2,9	4,6	-1,2	60	-5,3
	2008	1,9	0,9	2,4	-3,3	-0,2	9,2	-2,5	4,6	5,6	-2,7	60	-5,0
	2009	1,5	0,4	2,1	-0,3	0,1	6,0	-1,1	3,1	6,7	-3,3	61	-3,1
Japan	2007	2,0	1,4	0,7	-0,5	-0,1	8,6	1,7	0,0	3,8	-3,4	180	4,1
	2008	0,7	0,7	0,4	-2,4	0,0	6,0	0,4	1,6	4,1	-3,6	182	4,0
	2009	1,3	1,0	1,1	0,0	0,0	4,4	1,5	0,8	4,2	-4,0	183	4,2
UK	2007	3,1	3,1	1,9	4,1	0,0	4,2	-2,0	2,3	3,0	-2,5	43	-3,3
	2008	1,4	1,3	2,3	4,2	-0,2	3,8	3,5	3,8	2,8	-2,5	43	-4,1
	2009	0,6	1,3	2,4	3,0	0,0	3,4	3,0	2,8	3,0	-2,5	43	-4,0
Switzer-land	2007	3,3	2,1	-1,1	5,7	-1,4	9,4	5,9	0,7	2,8	1,3	55	16,8
	2008	1,9	1,9	-0,5	-0,5	0,4	3,8	3,6	2,5	2,5	0,3	54	9,4
	2009	1,5	1,5	0,6	0,7	0,4	4,2	4,9	1,5	2,6	0,1	53	10,3

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

# Financial forecast

Bond and money markets							
		Key int. rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	26-sep	2,00	3,55	4,54	146,0	-	511,0
	+3m	2,00	2,90	4,15	140	-	533
	+6m	2,00	3,15	4,25	135	-	553
	+12m	2,00	3,60	4,55	135	-	553
EUR	26-sep	4,25	4,78	4,80	-	146,0	746,0
	+3m	4,25	4,45	4,55	-	140	746,0
	+6m	4,00	4,00	4,30	-	135	746,0
	+12m	3,75	4,30	4,40	-	135	746,0
JPY	26-sep	0,50	1,10	1,70	154,1	105,6	4,84
	+3m	0,50	0,90	1,65	147	105	5,07
	+6m	0,50	1,00	1,70	142	105	5,25
	+12m	0,50	1,30	1,85	147	105	5,07
GBP	26-sep	5,00	5,45	5,12	79,4	184,0	940,0
	+3m	4,75	4,90	4,80	82,0	171	910
	+6m	4,50	4,40	4,85	80,0	169	933
	+12m	4,00	4,60	4,90	78,0	179	956
CHF	26-sep	2,75	2,88	3,48	158,8	108,7	469,9
	+3m	2,75	2,65	3,20	158	113	472
	+6m	2,75	2,50	3,10	158	117	472
	+12m	2,50	2,75	3,25	156	116	478
DKK	26-sep	4,60	5,18	5,01	746,0	511,0	-
	+3m	4,60	4,85	4,70	746,0	533	-
	+6m	4,35	4,40	4,45	746,0	553	-
	+12m	4,10	4,50	4,50	746,0	553	-
SEK	26-sep	4,75	4,85	4,76	969,1	663,6	77,0
	+3m	4,75	4,45	4,50	950	679	78,5
	+6m	4,50	3,95	4,30	945	700	78,9
	+12m	4,00	3,95	4,30	940	696	79,4
NOK	26-sep	5,75	6,26	5,40	826,9	566,4	90,2
	+3m	5,75	6,40	5,55	800	571	93,3
	+6m	5,25	6,30	5,50	790	585	94,4
	+12m	5,00	6,40	5,70	780	578	95,6
PLN	26-sep	6,00	6,12	5,48	336,4	230,4	221,8
	+3m	6,00	6,60	6,20	340	243	219
	+6m	5,75	6,50	6,10	340	252	219
	+12m	5,50	6,40	6,00	345	256	216

Equity markets				
Regional	Risk	Price trend 3 mth.	Price trend 12 mth.	Regional recommendations
USA	Low	-5% to +5%	+5% to +10%	Overweight
Japan	High	-5% to +5%	+5% to +10%	Neutral
Emerging markets (USD)	High	-5% to +5%	+5% to +10%	Underweight
Pan-Europe (EUR)	Low	-5% to +5%	+5% to +10%	Neutral
Nordics				
Denmark	Average	-5% to +5%	+5% to +10%	Neutral
Sweden	High	-5% to +5%	+5% to +10%	Overweight
Norway	High	-5% to +5%	+5% to +10%	Neutral

Commodities							
	26-sep	2008 - average				Average	
		Q1	Q2	Q3	Q4	2008	2009
ICE Brent	101	97	123	120	118	114	126
Aluminium	2.503	2.779	2.995	2.920	2.900	2.899	3.150
Copper	6.910	7.741	8.309	7.900	7.800	7.938	8.125
Gold	885	924	897	870	850	885	858
CBOT Wheat*	727	1.026	838	790	830	871	870
CBOT Corn*	557	527	630	590	600	587	638

\* Note: US\$/bushel

# Key data and events (1)

Monday, September 29, 2008				Period	Danske Bank	Consensus	Previous
1:50	JPY	Retail trade	m/mly/y	Aug		-0.2% 0.2%	0.0% 1.9%
9:00	ESP	HICP, preliminary	m/mly/y	Aug		4.6%	4.9%
10:30	GBP	Mortgage approvals	1000	Aug		30	33
11:00	EUR	Consumer confidence	Index	Sep		-20	-19
11:00	EUR	Industrial confidence	Index	Sep		-12	-10
11:00	EUR	Economic Confidence	Index	Sep		87.2	88.8
14:30	USD	PCE deflator	y/y	Aug	4.5%	4.5%	4.5%
14:30	USD	Personal income	m/m	Aug	0.4%	0.2%	-0.7%
14:30	USD	Personal spending	m/m	Aug	0.2%	0.2%	0.2%
14:30	USD	Private consumption expenditure	m/mly/y	Aug	0.2% 2.5%	0.2% 2.4%	0.3% 2.4%

Tuesday, September 30, 2008				Period	Danske Bank	Consensus	Previous
-	NOK	Norges Bank purchase of currency	M. a day	Oct	1100		1540
1:01	GBP	Gfk Consumer confidence	Index	Sep		-40	-36
1:15	JPY	Nomura/JMMA Manufacturing PMI	Index	Sep			46.9
1:30	JPY	Job-to-applicant ratio		Aug		0.88	0.89
1:30	JPY	Household spending	y/y	Aug		-1.3%	-0.5%
1:30	JPY	Jobless rate	%	Aug		4.1	4.0
1:50	JPY	Industrial production, preliminary	m/mly/y	Aug		-2.4% -6.3%	1.3% 2.4%
2:45	USD	Fed's Hoenig (neutral, non-voter) speaks on economy, policy					
3:30	AUD	Retail sales trend	m/m	Aug		0.1%	
5:00	NZD	NBNZ Business Confidence	Index	Sep			-20.5
6:00	JPY	Vehicle production	y/y	Aug			24.1%
7:00	JPY	Housing starts	y/y	Aug		49.8%	19.0%
7:00	JPY	Construction orders	y/y	Aug			42.3%
7:00	JPY	Small Business Confidence		Sep			41.4
8:00	DEM	ILO Unemployment rate	%	Aug		7.3	7.3
8:45	FRF	PPI	m/mly/y	Aug		0.2% 6.9%	0.7% 7.3%
9:30	SEK	Retail sales	m/mly/y	Aug			-0.5% 1.3%
9:30	DKK	GDP, final	q/qly/y	2nd quarter	0.9% 1.5%		-0.6% -0.7%
9:55	DEM	Unemployment rate, s.a.	%	Sep		7.6	7.6
10:00	CHF	Consumption indicator	Index	Aug			1.848
10:00	NOK	Retail sales, s.a.	m/mly/y	Aug	0.5%		-0.6% 1.5%
10:00	NOK	Credit indicator (C2)	y/y	Aug	12.8%		13.1%
10:30	GBP	GDP, final	q/qly/y	2nd quarter		0.0% 1.4%	0.2% 1.4%
10:30	GBP	Current Account	bn. GBP	2nd quarter		-10.1	-8.4
11:00	ITL	HICP, preliminary	m/mly/y	Sep		0.7% 4.2%	0.0% 4.2%
11:00	EUR	CPI Flash estimate	y/y	Sep	3.7%	3.6%	3.8%
11:00	ITL	CPI, preliminary	m/mly/y	Sep		0.0% 4.0%	0.1% 4.1%
14:30	CAD	GDP	m/m	Jul		0.1%	0.1%
16:00	USD	Chicago PMI	Index	Sep	54.7	54.0	57.9
16:00	USD	Consumer confidence	Index	Sep	57.0	55.0	56.9
19:00	USD	Atlanta Fed's Lockhart (neutral, non-voter) speaks on economy in New Orleans					

Wednesday, October 1, 2008				Period	Danske Bank	Consensus	Previous
-	USD	Total Vehicle Sales	m	Sep		13.6	13.7
1:50	JPY	Tankan Lge Manufacturers Index		3rd quarter	-2	-2	5
1:50	JPY	Tankan Lge Mfg Outlook		3rd quarter	-4	-3	4
1:50	JPY	Tankan Non-Manufacturing		3rd quarter	3	5	10
1:50	JPY	Tankan Non-Mfg Outlook		3rd quarter	0	2	8
3:00	CNY	Manufacturing PMI	Index	Sep			48.4
3:30	JPY	Labour Cash Earnings	y/y	Aug		0.0%	0.3%
8:30	SEK	PMI	Index	Sep			46.4
9:30	DKK	Retail sales, volume	m/mly/y	Aug	2.7% -2.1%		-2.5% -4.1%
9:30	CHF	SVME PMI		Sep		51.0	52.5
9:45	ITL	PMI Manufacturing	Index	Sep		46.0	47.1
9:50	FRF	PMI Manufacturing, final	Index	Sep		43.6	43.6
9:55	DEM	PMI Manufacturing, final	Index	Sep		48.1	48.1
10:00	EUR	PMI Manufacturing, final	Index	Sep		45.3	45.3
10:30	GBP	PMI Manufacturing	Index	Sep		45.0	45.9
11:00	EUR	Unemployment	%	Aug		7.4	7.3
11:00	DKK	PMI Survey	Index	Sep			48.4
13:00	USD	MBA Mortgage Applications, Sep. 26					-10.6%
16:00	USD	Construction spending	m/m	Aug		-0.5%	-0.6%
16:00	USD	ISM Manufacturing	Index	Sep	48	50.0	49.9
16:00	USD	ISM prices paid	Index	Sep		73.5	77.0

## Key data and events (2)

Thursday, October 2, 2008				Period	Danske Bank	Consensus	Previous
3:30	AUD	Trade balance	M	Aug		200	-717
4:30	CNY	CLSA Manufacturing PMI	Index	Sep			49.2
8:00	GBP	Nationwide House Prices	m/m/y/y	Sep		-1.7% -12.6%	-1.9% -10.5%
9:30	DKK	Unemployment, s.a.	%	Aug			1.6
10:00	NOK	Unemployment	%	Sep	1.7		1.8
10:30	GBP	PMI Construction	Index	Sep			40.5
11:00	EUR	PPI	m/m/y/y	Aug		-0.5% 8.5%	1.1% 9.0%
11:00	CHF	SNB publishes Septembers Quarterly Bulletin		3rd quarter			
13:45	EUR	ECB Announces Interest Rates	%			4.25	4.25
14:00	SEK	Riksbank speech by First Deputy Governor Irma Rosenberg					
14:30	USD	Initial jobless claims, Sep. 27	1000				493
16:00	USD	Factory Orders	m/m	Aug		-1.8%	1.3%
16:00	DKK	Change in currency reserves	DKK bn	Sep			0.9

Friday, October 3, 2008				Period	Danske Bank	Consensus	Previous
2:00	USD	St. Louis Fed's Bullard (neutral, non-voter) speaks					
7:45	CHF	CPI	m/m/y/y	Sep		-0.1% 2.7%	-0.3% 2.9%
9:00	NOK	PMI	Index	Sep	48		48.4
9:45	ITL	PMI Services	Index	Sep		48.1	48.5
9:50	FRF	PMI Services, final	Index	Sep		50.4	50.4
9:55	DEM	PMI Services, final	Index	Sep		49.3	49.3
10:00	EUR	PMI service, final	Index	Sep	48.2	48.2	48.2
10:00	EUR	PMI, final	Index	Sep	47.0	47.0	47.0
10:30	GBP	PMI Services	Index	Sep		48.0	49.2
14:15	USD	Treasury's Ryan speaks at SIFMA event					
14:30	USD	Change in nonfarm payroll	1000	Sep	-90	-95	-84
14:30	USD	Unemployment rate	%	Sep	6.1	6.1	6.1
14:30	USD	Average hourly earnings, non-farm	m/m/y/y	Sep		0.3% 3.6%	0.4% 3.6%
16:00	USD	ISM (NAPM) non-manufacturing	Index	Sep	50.3	50.0	50.6

During the week				Period	Danske Bank	Consensus	Previous
Tue 30 - 05	DEM	Retail sales	m/m/y/y	Aug		0.5% -2.6%	-1.5% 0.0%

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